

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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FISCAL IMPACT STATEMENT

LS 6344

BILL NUMBER: HB 1162

NOTE PREPARED: Jan 4, 2012

BILL AMENDED:

SUBJECT: PERF and TRF COLAs.

FIRST AUTHOR: Rep. Neese

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill provides for a cost-of-living adjustment (COLA) for Public Employees' Retirement Fund (PERF) and Teachers' Retirement Fund (TRF) members, survivors, and beneficiaries.

Effective Date: July 1, 2012.

Explanation of State Expenditures: This proposal provides a 3% COLA for those PERF and TRF members who retired or were disabled before January 1, 2012. Payments including the 3% COLA increase will begin July 1, 2012 and will continue as long as these members receive monthly benefit payments.

TRF Pre-1996 Fund- Since the TRF Pre-1996 Fund is funded on a pay-as-you-go basis, the annual cost of the COLA is the increase in the amount of benefits paid each year. The initial increase in benefits paid is expected to be \$22.5 M in FY 2013, gradually decreasing in future years due to mortality (Table 2). The ultimate cost of this proposal for current Pre-1996 Fund members is the increase in the present value of their benefits of approximately \$230 M (Table 1). The fund affected for the Pre-1996 Fund is the state General Fund.

TRF 1996 Fund- The TRF 1996 Fund is pre-funded by employer contributions. Future benefits are paid for when benefits are earned rather than on a pay-as-you-go basis where benefits are paid when they are due. Employers make actuarially calculated contributions equal to the benefit accrual cost for the year (the Plan's normal cost) plus a 30-year amortization of the unfunded accrued benefit liability. For the 1996 Fund, school corporations contribute a percentage of payroll, currently 7.50%.

Annual COLAs of 1% per year are assumed in the actuarial valuation of the TRF 1996 Fund and are pre-

recognized in annual employer contribution requirements. A 3% COLA increase would increase the plan's normal cost and require additional employer contributions to fund the increase. The proposal would require increased annual employer contributions of approximately \$750,000 (an increase of less than 0.1% of payroll). The COLA provision would increase the unfunded benefit liability of the TRF 1996 Fund by \$15 M compared to current law which provides no COLA (Table 1). The ultimate cost of this proposal for current 1996 Fund members is the increase in the present value of their benefits equal to approximately \$15 M.

PERF- Similar to the TRF 1996 Fund, PERF is pre-funded by employer contributions that are actuarially calculated to equal the benefit accrual cost for the year plus a 30-year amortization of the unfunded accrued benefit liability. Also like the 1996 Fund, annual 1% COLAs are assumed in the actuarial valuation of PERF, and are recognized in annual employer contribution requirements. The 3% COLA provision would increase the plan's normal cost and require additional employer contributions to fund the increase. The proposal would require increased annual employer contributions from the state of approximately \$1.9 M (an increase of approximately 0.1% of payroll). The funds affected for the impact on annual funding are the state General Fund (55%), or \$1.06 M, and various dedicated funds (45%), or \$865,350.

The COLA provision would increase the state-funded portion of the unfunded benefit liability of PERF by \$37.7 M compared to current law which provides no COLA (Table 1). The ultimate cost of the COLA proposal for the state-funded portion of PERF is the increase in the present value of benefits equal to approximately \$37.7 M.

Table 1. Increase in Present Value of Future Benefits from COLA.			
	Amount Recognized in Valuation (1% on 1/1/2013)	COLA Provided in Bill (3.0% on 7/1/2012)	Net Increase (Decrease) Over 1.0% Assumption
TRF Pre-1996 Fund	\$76,000,000	\$230,000,000	\$154,000,000
TRF 1996 Fund	\$5,000,000	\$15,000,000	\$10,000,000
PERF (State-Funded)	\$12,680,000	\$37,682,000	\$25,002,000
Total	\$93,680,000	\$282,682,000	\$189,002,000

Table 2. Estimated Increase in Projected Benefit Payments from 1% COLA Increase				
	FY 2012	FY 2013	FY 2014	FY 2015
TRF Pre-1996 Fund	\$0	\$22,503,000	\$22,503,000	\$22,503,000
TRF 1996 Fund	\$0	\$1,287,000	\$1,287,000	\$1,287,000
PERF	\$0	\$19,248,000	\$19,248,000	\$19,248,000
C&E Fund	\$0	\$141,000	\$141,000	\$141,000
Legislators' DB Plan	\$0	\$10,700	\$10,700	\$10,700
TOTAL	\$0	\$43,189,700	\$43,189,700	\$43,189,700

The State Excise Police, Gaming Agent, Gaming Control Officers, and Conservation Enforcement Officers' Retirement Fund (C&E Fund) and Legislators' Defined Benefit Plan (Legislator's DB Plan)- The C&E Fund and the Legislators' DB Plan are statutorily linked to any benefit increases provided to PERF recipients. The 3% COLA provision would therefore also provide a 3% COLA increase effective July 1, 2012, to members of the C&E and Legislators' DB Plan. The portion of the liability and costs associated with the two smaller retirement plans is very small compared to the PERF impact.

The C&E Fund is an actuarially pre-funded plan. The proposal would increase employer contributions by \$69,000 annually (an increase of approximately 0.3% of payroll), and would increase the unfunded benefit liability of the fund by \$1.3 M compared to current law which does not provide a COLA.

The Legislators' DB Plan is a pay-as-you-go fund paid for through General Fund appropriations. The 3% COLA increase would require additional annual appropriations of approximately \$10,700 beginning in FY2013, decreasing gradually in future years due to mortality.

Table 3. Estimated Retirees and Beneficiaries Impacted and Average Benefit Increase from 3% COLA		
	Number of Retirees and Beneficiaries Impacted	Average Annual Benefit Increase due to 3% COLA
TRF Pre-1996 Fund	45,421	\$495
TRF 1996 Fund	2,554	\$504
PERF	70,380	\$273
C&E Fund	176	\$801
Legislators' DB Plan	65	\$164

Explanation of State Revenues:

Explanation of Local Expenditures: The bill provides a 3.0% COLA for members, survivors, and beneficiaries of PERF payable beginning July 1, 2012. Annual 1% COLAs are assumed in the actuarial valuation of PERF, and are recognized in annual employer contribution requirements. The 3% COLA provision would increase the plan's normal cost and require additional employer contributions to fund the increase. The provision would require local units to contribute an additional \$3.2 M annually to fund the COLA increase (an increase of approximately 0.1% of payroll). The COLA provision would increase the locally funded portion of the unfunded accrued benefit liability of PERF by \$62.8 M compared to current law which provides no COLA.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: Those units with members in PERF and school corporations with members in TRF.

Information Sources: Greg Witter, Indiana Public Retirement System, 317-232-3868.

Fiscal Analyst: Camille Tesch, 317-232-9866.

DEFINITIONS-

Cost-of-Living Adjustment- An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value– The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.